Introduction

Eric: [00:01:04] **My guest today is Brandon Zick, the CIO of Ceres Partners. Brandon grew up on a farm in Pennsylvania before here on a Wall Street for over a decade. In 2010, he returned to his Agrarian roots at Ceres, where he manages a $1.4 billion fund that invests in farmland. In this episode, Brandon gives us an in-depth look at this unusual asset class, including the demand and supply dynamics, the economics of farming and how they choose which farms to invest in. Please enjoy this conversation with Brandon Zick.**

Eric: **[00:01:40] Brandon, thank you for doing this today.**

Brandon: [00:01:42] Yes. Thanks for having me, Eric.

Eric: [00:01:44] **You grew up on a farm. I think you might have been the first friend I've made that actually lived on a farm. And when we started talking about it, I started to learn so much about what it's like and the economics and the value a family has in a farm. Maybe a fun place to start would be what it was like to grow up on a farm and what you learned about the value of it.**

Brandon: [00:02:04] I grew up on a real farm. My family wasn't someone that just owned a horse in Lexington or something. This was a real dairy farm that my parents and my siblings and I worked on every morning and every day after school. So it definitely taught you the definition of hard work, and it also motivated me to do something else. This wasn't a long-term strategy for me. I really didn't enjoy it either. So my parents encouraged me to do something else as well, too.

But we grew up on a dairy in Northeastern Pennsylvania. And it's interesting to see, when you own land what optionality comes with that. I mean, for our farm, it happened to be in the Marcellus Shale region. So now if you look back over time from when my grandfather started it to where we are today, definitely probably more profitable pumping natural gas than we ever were milking cows, but it's that value you get from owning land and all the optionality that comes with it that really stuck with me. And over the course of my career, it's kind of what brought me back to working in the agricultural space.

Ownership of US Farmland

Eric: [00:03:03] **You come a long way from actually milking cows to owning farmland. But maybe to start, it would be helpful to understand, when you look at the United States, is it a consolidated space where there's three large people that own most of the farmlands? Is it lots of families like yours where multigenerational? Like how do you break up the farmland in the U.S.?**

Brandon: [00:03:24] Yes, that's a great question. I think a lot of people who aren't involved in farming or agriculture, there's a real misconception out there that there's consolidated land ownership. That's really not the case. In certain industries in agriculture, maybe more so than others. But if you just look at U.S. farmland, and there's roughly 330 million acres, about half of that is owned by heirs, estates, trusts, not actual farmers.

About 40% or 45% are owned by people that are actually farming today, those family farms like the one I grew up on, investors, and I would include people like Ceres, our firm, and other big groups such as the Mormon Church or the Bill Melinda Gates Foundation, big insurance companies like John Hancock. They own about 3%. So institutional ownership's really low.

When you hear about four in land owners, that's de minimis. There may be some strategic farms, we don't want foreign entities to own because of location. But really, there is not a lot of that, that happens. The majority of land ownership are those non-farming heirs, estates, trust. So families that maybe two or three generations prior were farming themselves and then the kids kind of had the same mentality I did. They went to college and didn't come back to the farm, but the family still owns it.

And there's a robust rental market for farmland because of that, particularly in the Midwest, because unlike other real estate asset classes, farmland really doesn't have vacancy. Everything is farmed every year. There's no new farmland coming on in the U.S. It's only going down in terms of gross acres that get farmed. But your majority of land ownership are actually people that aren't farming. But every farm is actively operated, the majority of the time by family farms.

Eric: [00:05:17] **I don't know when the institutions showed up, even though they're still small. I'm curious, if you rewind the clock, your great grandfather starts a farm, he passes it down. That seems to be the tradition. This is a farming family. Before the institutions showed up, what was the value to those further generations? Like, how do they unlock the value of the farm? Do they just sell it for something else, put up a mall or something?**

Brandon: [00:05:41] If you think back to the history of farm ownership, particularly in the Midwest, it was the Homestead Act. Everybody had 40 acres. Consolidation started happening generation by generation as people moved from the rural areas to the cities. Those farms were then sold, usually to a neighbor. It was usually sold for farming. Every municipality that's had growth over the last 100 years, which would be almost everyone, there's farmland that comes out of production for things like housing, industrial, roads, infrastructure. There's always farmland that's disappearing, and that continues today.

When I mentioned the gross amount of acres that can be farmed every year goes down every year, that's really because of things like development or conservation. And development could be housing, industrial, renewable energy, any of these things. But you started to see consolidation, really, with every generation that moved away from the farm.

Some of them kept ownership, most either sold or rented to the neighboring farmer. And even today, if we're trying to buy a farm that happens to be at a public auction, usually, the stiffest competition would be neighboring farmers who want to own that ground that's contiguous, and therefore, strategic to them.

The institutional investors started coming in, in the early '90s, and that really came from the insurance company business. And you have long-dated liabilities, you're looking for long-dated assets. Very similar to their investment in timber. The big difference between timber and farmland is that the large tracks of timber ground were mostly owned by end users. So your Weyerhaeusers, your Georgia-Pacifics, all of your paper companies that needed that timber are buying all the timberland. So when institutional owners wanted to buy it from them, they could just go talk to one or two owners and invest a lot of capital.

In farmland, you have this really diverse ownership group. The institutional roll-up of those assets has really never happened. And maybe it's starting now, but it's so small. It'll take generations upon generations for that to happen, partially because only about 1% of farmland ownership turns over every year. And that's usually people looking for liquidity or settling in a state or a trust or something like that. There's no way to deploy a lot of capital right away.

And that's why between the early '90s and fast forward to today, so 30 years, Ceres has been around for about half of that time, you still only have roughly 3% of farmland being institutionally owned. And that's bigger in other parts of the world because individual property rights aren't as strong.

So in places like Australia, you have bigger tracks of land that institutions can deploy a lot of capital. In South America, different types of property rights, institutions can deploy a ton of capital there. We really believe in investing in the U.S. for a lot of reasons. But one of them is you just have a limited amount of acres that are ever going to come online every year for sale.

Eric: [00:08:43] **You have a limited supply, fragmented, hard to enter. This is where you find usually great investments, so let's kind of break it down. The 1% turnover, this isn't something you can buy on eBay. Where do you even find out a farmers for sale? Like, a local newspaper? Or, like, how consolidated is that transaction?**

Brandon: [00:09:02] You laugh, but some of the newspapers we have on our desk here, the farmers of the lands, that is one way to source land transactions, but there are really two markets. There's a much smaller public market, which would be public auctions. And these auctions, while they're public and some of the auctioneers allow you to bid online, they're highly localized.

I was at one of these auctions, Tuesday night, and it was for about 900 acres. It sold for around $13 million. We were actively bidding on this whole farm. We owned land right across the street for our portfolio. It ended up being sold to four different buyers. I think all four of them were local farmers, either adjoining or very close by the property. They were all paying cash. They weren't using debt.

While these public auctions do exist, it's still very localized. I think for the entire year of 2023, we'll probably participate in about 350 public auctions, and they'll likely be in 300 different locations. While we're looking at almost a farm every day, for those local farmers who want to buy a property, public is the one type of transaction that they have access to, that everyone locally has access to. There might only be one in their area for the year.

And to have an auction, it only takes two. So public auctions exist, but that's a smaller part of the market. The larger part of the market are private transactions. And that's why we use farm tenants. We ran out all of our property. We don't direct-operate it. All of these tenants, they own ground themselves, and they rent lots of land from other people.

Most private transactions start with the landowner talking to their farm tenant to say, we're thinking of selling this farm. Maybe the patriarch or the matriarch passed away, are you interested. That's usually the first conversation long before anything would go to an auction or even a private listing with a realtor or something.

So we view that tenant network that we have as a long-term pipeline for sourcing deal flow. If there are farmers that when their landlord says to them, do you want to buy it? If they're capable and ready, they're going to buy that farm. And it will never hit the public market.

Eric: [00:11:17] **So when you say tenant, about -- back to use your example, I don't know if you're a family farm or we can just use a fictitious one, whatever, the kids go to college, they're like, this is way harder. I'd rather work in finance and click buttons. Then the parents are like, but we still have a farm, they can then outsource that to a company and take a profit? Or do they just rent it as if they own a**

multifamily house?

Brandon: [00:11:37] So there are different ways to rent. But yes, typically, they're renting it to another family farm, probably a neighboring farm. And it's interesting because if you have children that go off to college and want to come back to the farm, you can't just divide the same pie another way for another family. You have to grow that pie.

So for those family farms that are active and growing, they're growing because other family farms are no longer going to farm themselves. They're now going to rent it out. So for instance, every farmer, I know they would love to own every acre that they farm. They prefer not to rent, just like every renter of an apartment would rather own it or a house. It's the same thing.

But they're capital constrained. If I look at our tenant base, we own about 165,000 acres. We have 150 different farm tenants. But those tenants, combined, own, if you add it all up, about 0.25 million acres and then they rent over 650,000 acres from other people. And most of those other people are the widows, estates, trust, non-farming heirs.

So if you looked at our tenant base, and you say, well, they farm roughly one million acres out of 330 million, but a lot of those acres are rented. Over time, the only way for farmers to grow is to either buy ground or rent more ground. So you have a constantly consolidating industry, but it's not around multinationals.

If you look at the big ag companies, they might own a little bit of land, but they don't own a lot. Well, if you look at our industry, the big ag multinationals are the groups that are either selling seed and chemicals, your Monsantos, Syngentas, fertilizer sellers like Mosaic and Potash. They're selling to farmers.

Your big equipment manufacturers, they're selling to farmers. And then your big grain handlers are end users. So whether it's cattle feeders, dairies, ethanol and then big groups like Bunge and Cargill, Louis Dreyfus, et cetera. All these people are either selling into the ag space or buying out of it. They don't need the land. The land is the means of production of all of this. It's the factory, but farmers are happy to own it. Other landowners are happy to own it.

And most of these big corporations, they don't need to own it to have a business around it. So that's kind of a unique part of this asset class, which makes the land market much more inefficient. Because we sit here in South Bend, Indiana. We own farms in 12 states, and Indiana and Michigan are the two largest but we own a lot of farms around the great lakes, so Illinois, Wisconsin, Ohio, Kentucky, and then Indiana and Michigan.

That's kind of our home base. And we look at farms in multiple states every day. We look at the return profiles, the quality of the farm, the rent we can generate. And we're kind of in this position that we can say no. We certainly do say no more often than we say yes in terms of buying a property.

But if you're a local farmer, your ability to travel and operate these farms is limited to a county or two counties, so you have to be much more active and aggressive in those specific areas if you want to grow, because you have a limited population of acres that could be farmed.

And every time something sells, it can sell to another farmer, it can sell to an investor or could sell to a developer or something. You may have been farming a property for 20 or 30 years, but if it sells that property

is gone, unless you're the buyer. In commercial real estate, if you're renting office space, you probably don't care who owns it as long as they take your rent check every month.

In farmland, if something sells that new owner is either going to direct-operate it or they have their own farmer that they're going to maybe be working with, or it's going to come out of production. That's going to become a housing development. Here in the Midwest, there's a lot of industrial development, the reshoring that's happening. There's a lot of acres coming out of production for things like that.

Eric: [00:15:45] **If the supply of farm land seems to be on an ever decreasing pace, what is it like on the supply of farmers? If the kids are dropping, how many new farmers are being born every day?**

Brandon: [00:15:55] First generation farming is tough because it's capital intensive. I mentioned our farmers, combined, own about 0.25 million acres. That's between 150 families. And that 0.25 million acres, if you assume $8,000 or $9,000 or $10,000 an acre value, that's a lot of capital tied up in land. And farmers use a good amount of debt for things like operating or equipment purchases, things like that.

And every lender, they want to see land ownership because that's the best collateral you could ever have. Becoming a new farmer is really capital-intensive and very difficult. That being said, if you ask most of our tenants, you see these stats, the average age of the American farmer, they kind of laugh, because most of our tenants are farmers that we work with, they're multigenerational. So the grandfather and grandmother might still be around, and they're in their 80s. The children are in their 60s and the grandchildren are in their 20s or 30s who are coming back to the farm.

So it's whoever answers that survey that determines, is it an 80-year old or a 30-year-old that's the farmer? Or if you ask them, is that an important statistic? They would laugh and they'd say, "No. The statistic I care about is the average age of my landlords." Because when those families that they're renting from, if grandma or grandpa dies, if the children who are now in their 60s say, "We want the money from this asset. We want to retire."

And typically, these farm assets are very valuable. When your landlord decides to sell, if you're not in a position to buy it, then you could lose those acres. And every farmer, they make a lot of decisions around overhead, infrastructure, hiring around a certain base of acres. And usually, those are the acres they own and the acres that they don't think they're going to lose that they're renting.

And it's pretty much when land turns over that 1% every year. It's almost always around estates, trust, somebody's finally passed away and people want liquidity. When someone owns land and there's one person in charge, a committee of one, it's easy to make decisions. But if there's four children and then 10 grandchildren, becomes much harder to make decisions.

And every time you're cutting up an annual rental payment, it becomes less and less meaningful. And some people would say, well, instead of getting $50,000 a year split five ways. I'd rather have $1 million that we split five ways and we'd do whatever we want with it. And so that's really what drives a lot of transactions. It's not market timing. It's not the rate environment. It's somebody passed away, and we want to turn this fixed asset that we might not live near anymore into cash.

Economics of Farming

Eric: [00:18:39] **Staying on the tenants, what is the economic sensitivity or cycle of being a farmer? It's capital intense, there's cyclicality. I don't know if everything is hedged through futures or something or they don't have that much risk? Or are farmers going bankrupt a lot?**

Brandon: [00:18:56] There was a big debt farm crisis in the '80s, and there's a lot of industries that struggled in the '80s with 16% to 18% interest rate. So I think the farm economy learned from that. There was definitely more real estate debt back then, and there were all kinds of debt.

Most farmers today, they don't carry much real estate debt at all. Even someone like us, if we want to put a loan on a farm we own, you need 50% to 60% down. So there's no like 5% down, you're buying a farm. You need a lot of capital or a lot of equity. So you don't see a lot of farm bankruptcies, but there's more leverage on the operating side.

So farmers use operating debt kind of annually to buy their input, so seed, fertilizer, chemicals. And then at the end of the year, they pay it off when they harvest their crop. Farmers use crop insurance to help hedge against that crop risk every year.

Most farmers are using some type of futures or hedging strategy. They're not going to hedge 100% of their crop, but they're also not in the spot market either. So when we're identifying farmers that we want to work with, the sophistication of the different types of farmers out there are all over the place.

So you can have people that harvest their crop and they sell it immediately, which is always the lowest price because everybody is harvesting at the same time. And then you have other farmers that are storing their grain on property. They're marketing it throughout the year to try to capture some positive basis. They're selling a portion of future crops every year ahead of time so that they're not subject to big swings in the market.

Every farmer wants higher grain prices, but they all know there are cycles. The goal, if you're in the ag business, is to survive multiple cycles, multiple generations. Let's say, a 10-year span, like, a good cycle. There'll probably be two or three years that the farmers hit the cover right off the ball and just have fantastic profitable years. In the last two or three years, we're probably like that. There might be three or four years that they're breakeven, and then there are a few years that they lose money.

And sometimes there's just a disconnect between they bought their inputs and they hedged a certain amount of the crop, but then prices went down. And so for one year, they're cash flow negative, but they survive and they farm the next year because they've had those years of high profitability.

What I tend to observe is that farmers keep those years of profitability, that equity in the farm. They do buy equipment, they buy land, but they also hold cash and other equivalents to try to survive for those years that are going to be less profitable. If you come in thinking that you're going to make a profit every year in agriculture, on the production side, you're probably in for a little bit of a surprise.

Now, on the land side, we don't want that production risk. We're more of a rental strategy. And for us, like any other real estate, it comes down to making it on the buy side and having good lease partners so that they're able to pay the rent through the cycle. And the best way to kind of make the rent affordable and make the return the most positive is to just pay less for the farm, which is really our strategy.

Eric: [00:22:06] **In that cycle on the tenant side, whether they have breakeven, they can lose money, can you give us a sense of, like, what is that in profit margin? And what's the average for a farm over a cycle as a reference?**

Brandon: [00:22:17] If we're talking about incremental acres, so let's say there's a farm coming up for sale that they farm 5,000 acres and it's 250 acres of additional land close by, on a variable profit basis, really, related to that crop, they're targeting $100 to $150 an acre through a cycle. So there may be years that they lose $50 an acre and then there could be really good years, like 2021, when they're making $300 or $400 an acre.

To give you a sense of profit margin, if that was a corn acre it probably cost them about $400 an acre in input cost and then, let's say, $300 or $400 an acre in rent, and then they made $400 an acre. That's a 30% to 45% profit margin. So really good, but then you have other years that they lose money.

And every acre is different. Farmers are usually really good. And again, I'm speaking in broad strokes, but they rotate crops. They try to reduce their input cost by using the latest technology, so they put on less fertilizer, they use less spray. They try to maximize yields, all these things to make each acre more profitable. And those are the tenants we're targeting, the people that are using that type of technology that are on the leading edge.

The best way to be profitable in farmland is just to own 100% of your acres without any debt. Those are the best farmers if you look at their balance sheet. It has nothing to do with how great they are as an operator. It's 100% equity in the land, and it's tough to beat that. You're going to make money every year.

But from the standpoint of reality, very few farmers are blessed with that. So it comes down to those folks that are maximizing their yield and increasing the gross revenue on the farm, while at the same time, limiting their expense and generating the highest margins.

There are different ways. Like, there's scale that allows you to reduce your expenses, buying at larger amounts will bring down the cost per acre. And then also some of those things I mentioned like being able to store your grain or selling grain directly to end users rather than grain handlers or middlemen can increase your gross revenue. So we really try to find those farmers that do both, lower the expense, raise the gross and therefore, maximize their margin.

Eric: [00:24:42] **I was going to ask you, how much on their cost side from operating and then get to the buying side that you're on. But on the cost side, how much of it is the operational cost getting your input cost down versus the sell side of being strategic and using technology of, like, knowing how to sell it?**

Brandon: [00:24:59] It's really both. The one thing that limits your ability to sell is that these are real assets. It's got to get put on a unit train and make it to a port or make it to a barge to get to an end user. While you look at the Board of Trade in terms of this is the price for corn or soybeans, the local markets will really dictate what's the price that a farmer can receive.

Their ability to sell for a higher price really comes down to are you selling directly to an end user that's relatively local. So if you look at areas that have the best basis for selling grain, it's usually those areas with a lot of end users. Whether it's poultry operations in North Georgia, cattle feeding operations in the Midwest,

hog feeding operations. Ethanol is a big end user.

If you're in an area with a lot of those end users, you tend to see higher prices, which will eventually manifest itself in land value and farmer profitability in those areas. On the input side, farmers are good about trying to -- not necessarily forming co-ops, but having buyer groups and things like that to try to reduce their cost for seed and fertilizer and chemicals.

But every acre is a little bit different. Some farmers, they prefer one brand of seed over others, different soil types, so you're using different types of seed. So the ability for farmers to really pressure-input providers doesn't really exist. We have this group of 150 farmers and, combined, they operate about one million acres. That's not even 1% of farmland in the U.S.

So if you looked at talking to these big input suppliers, they benefit from the fact that farmers are not consolidated or input buyers are not consolidated. And over time, a lot of operators have tried to consolidate purchasing, but we have co-ops. Usually, the nail in the coffin for them is they just become too big administratively and all the savings you should have disappear and get spent in that sense. These co-ops don't seem to last very long because eventually, farmers say, well, I don't need you to do that. I can do it myself.

Eric: [00:27:12] **How good are farmers as a signal for inflation? Are they, as an industry -- where they're at a base level, were they able to say, okay, we think this is going to go up and now we're going to start hedging less? Or are they more just it's coincidence to the business they're in?**

Brandon: [00:27:29] I don't think it's coincidence. There's some correlation, but I don't know if they're dictating it or if they're seeing it out in front or if they're getting it at the back end. Some of the things that you look at, let's say, seed cost. Seed cost is really just a function of how much profitability is their per acre, what are commodity prices. And then these seed companies will increase or decrease their prices based on that to try to eat margin.

Fertilizer costs are almost completely correlated with oil and natural gas, energy cost, huge correlation to oil, obviously. And when you think about the big expenses that farmers have, equipment is a huge one. And again, if there's a lot of profitability in the farm space, those prices go up.

The pandemic and Russian steel and some of these things, there was probably some reality behind why those prices were going up, but then those prices are sticky. They tend to not go back down. Inflation, I think, farmers see it coming. There's a reason why they don't want to own land.

The Chicago Fed, the Seventh District has some great data. If you look at increases in land value going back 60 years, you can almost perfectly see that it's inflation plus gains and productivity. So every year farms become more productive per acre, at least good farms do. And that plus inflation will translate into what's your land worth 10 years, 20 years down the road.

Eric: [00:28:55] **Where does the idea of Ceres Partners are putting this into an investment vehicle come from?**

Brandon: [00:29:01] It started with our founder, Perry Vieth. He was the CIO of Fixed Income at PanAgora in

Boston, near you. With his own personal money, in the mid-2000, started buying farmland. He had grown up in Wisconsin and had a daughter at Notre Dame at the time, so he bought a few farms in Indiana as just a way to get out of the paper markets and into the real asset market, but real assets that generated income.

So not gold, but something that paid you a coupon every year for owning it. And I think he had a lot of family and friends, over the course of a few years, that said, how do we do that? That seems pretty cool. He started Ceres Farms back then in 2007. I joined in 2010, and that was from a mutual connection at Notre Dame's endowment, where we both went to school.

I was looking to kind of marry my finance background. I was at Morgan Stanley in New York at the time with my farm background, and I became the first portfolio manager to really bring together that farming and finance here at Ceres. Back then, he had about 6,000 acres in the portfolio and now we're in 165,000 acres today.

So there's been a tremendous amount of growth since 2010. And we were doing almost a lot of missionary work with investors to convince them that this was a real asset class to invest in. That's totally changed. Everybody wants real assets that generate income. There's a ton of demand on the investor side. It's just harder now to deploy capital at the returns we'd like to generate.

Categories in Farmland

Eric: [00:30:30] **Was it novel when Perry was getting this off the ground? Or is there a niche industry of funds that do this type of investment?**

Brandon: [00:30:39] At the time, there were really only a few. So you had your bigger insurance company type group. So John Hancock was the largest, and they had both a timber and a farmland investment. And farmland can be divided into both permanent crops, so your orchards, your vineyards, et cetera; and then row crops.

And we're focused more on row crops because we think that for the investment objectives that most people are trying to achieve, whether it's correlation with inflation, diversification, income. Row crops are a better way to get there, in our opinion. But there weren't a lot of people that were doing this.

UBS had a fund that was just under $1 billion. You had Westchester, which was eventually bought by Nuveen. They were maybe $1 billion and change. And then there were other groups, but not funds. The Bill & Melinda Gates Foundation were small then in terms of farmland ownership. The Mormon Church is the largest institutional owner of farmland, and they were big owners then and are still big owners now.

There weren't a lot of people doing this when Perry started it. There are a lot more now. Even though it's only 3% of the market, there are a lot of different ways to invest in farmland from a couple of public REITs that are relatively small to big institutional funds. We're at about $1.5 billion in assets, and that would put us kind of in the middle of that group.

And there are even smaller groups that are crowdsourcing ownership of farmland. I don't believe in buying farms unless you really know what you're doing because there's no cheap beta in this asset class. There's no index you can buy that's low fee that says, give me exposure to farmland. There's probably a lot of very expensive beta that's out there. And then there are folks that generate true alpha that -- I would put us in that group. That's for investors to determine over time.

Eric: [00:32:31] **So the row permanent. Where do animals fit?**

Brandon: [00:32:34] I would never want to invest in them, having grown up on a dairy with livestock. But if you say row crop, if you want to put it in the fixed income, given your background, that's core fixed income. Row crop is you're generating a coupon every year, you're going to collect hopefully, all of the rent.

In theory, that should be lower return because it's lower risk. You move to permanent crops. Now your asset isn't just dirt. Your asset is the tree or the vine that's growing. It's much more, not just crop, but variety-specific. So if you're growing wine grapes, you have cab or you have Pino or Merlot or Chardonnay. You're very tied into that region and that specific variety.

Same thing with apples. You might have Honeycrisp, which is great today, tomorrow, there's a new one and the value goes down. So much more specific, higher risk, and you're also more likely to be direct operating. Higher up the risk curve, in theory, should be higher return.

And then you have livestock. And livestock could be dairy, feeder cattle, hogs, poultry. Now you have living, breathing animals with disease, and labor is a huge part of that. So much, much higher up the risk curve, again, should be much higher return. Our interest level in that is pretty low. I'm not an expert on this. But -- I think the percentage of institutional ownership and livestock is really low because it's very difficult to underwrite. There's a lot of boom-bust cycles in there.

And something like avian flu in poultry, I don't know how the heck you think about underwriting that type of risk where you can just be wiped out. That is really high up the risk chain or the value chain. It seems like institutional investment in terms of newer investors, at least, has really honed in on that permanent crop area.

Our interest in that is really low, because we don't like to direct-operate. It's very crop-specific, variety specific. There's an overwhelming weight or overweight to California and underwriting water risk in California. To us, it's very difficult. I would challenge anyone to say that over time, you're paid for that risk.

So if you think about it in terms of risk-adjusted return, row crop should be lowest risk, lowest return, but the market's inefficient. And we focus on that region of the U.S., that's the highest quality ground.

So an overwhelming overweight to the Midwest, which is really unique amongst institutional investors. And yet, I would argue that we generate higher cap rates and ultimately higher returns, investing in the lowest risk asset, which is not something that should happen. And over time, that should be priced away, but we just haven't seen that yet.

Eric: [00:35:20] **Well, that's an interesting opportunity for sure. Using the analogy of the row crops, I think about this in all markets we're going to try to talk about. But what's like the U.S. Treasury or the base rate? Is it corn? Is it wheat? Like, what is the lowest risk, hypothetically, not for the potential fragmentation, lowest return crop?**

Brandon: [00:35:40] I would give you more of a region, so that Chicago Seventh district. If you said just the best ground lowest risk for growing grains, it's parts of Iowa and Central Illinois. It's the strongest farmers. But farmers rotate, so they don't grow corn every year. That's a rotation of corn and soybeans.

Those are the two biggest row crops in the U.S. They're the feedstock for almost every animal that exists in the world. So corn and soybeans, that rotation. One, corn is a nitrogen user. Soybeans are a nitrogen fixer in the soil, so it's a great rotation amongst those crops. So those are the highest quality, typically highest priced farms, should be your lowest cap rate.

And if you look at the NCREIF index, which is a group of institutional investors, if you look at that Midwest region, that index generates around a 2% cap rate. So back when rates were nothing, you'd say, "Well, that's fine." Now that U.S. Treasury is five plus, it's a little bit different.

We've never invested in that. We're happy with a 2% or 3% cap rate. We've always kind of targeted a 4.5% to 6.5% cash-on-cash return on land. And then when we do CapEx improvements, which -- they still exist in row crops. They're just not as high a percentage of your overall investment. We target kind of a 10% cash-on-cash return.

Using that higher underwriting standard, when I mentioned earlier, we just want to pay less for the farm. It's not that we're just finding steels everywhere. It's we won't overpay for properties that we don't think cash flow at the rates we like. And back when we were more capital constrained, it was easy to say, well, we'll just pass on this one because we just didn't have that amount of capital.

Today, we're a much larger fund. We actually have a queue of about $250 million in new investors waiting to come in, and we're maintaining that discipline. We don't want to deploy capital at lower cap rates. We didn't want to do it when treasuries were lower. We certainly don't want to do it now. Having that discipline and being willing to invest throughout a cycle is really our advantage.

A look at Ceres's Operations

Eric: [00:37:50] **Walk me through the buying process. A farm comes across your desk, the sourcing from it. I think probably a private will be even more interesting. You touched on the auction, but how you even find out about a deal? And then when you analyze it, how do you think about what are the most important factors to that buy decision?**

Brandon: [00:38:07] The best private deals are the ones that our farm tenants are bringing to us. From an underwriting standpoint, the easiest ones are when our farmer has been farming a property for a number of years, they're leasing it from a family or an estate. And then that family says, "Well, we want to sell the farm. Are you interested in buying it?"

If our farmer wants to buy it themselves, then they're going to do that. We won't even know about it probably. But if they say, "Well, we're not in a position to buy that one," if everything was the way they would like then every year, they'd have on landlord that wants to sell 80 acres and they'd buy all these farms over the course of 10 or 20 years.

But what's more likely to happen is four families decide in one year, they want to sell it, so they can't buy at all. And they don't have unlimited access to capital or debt, so they call us and say, "Well, we would like to continue farming this property. We can't buy it. Our landlord wants to sell. We'd like you to own it."

And because they already have a production history on that farm, the big variables we're underwriting are

it's sandy soil or lighter colored soil versus black dirt, which is the most nutrient rich that you find in those areas of Iowa and Central Illinois and Indiana.

If they have a production history, we don't have to estimate that. We can look at precisely what have you produced on that farm. If they've been farming it, they would certainly know what improvements or CapEx should be done. In a lot of cases, you would think, if a farm that would benefit from irrigation, it would be, and that would be your efficient capital theory.

But if the previous owner wasn't estate or a trust, that we're living off of that or distributing the income every year, they're unlikely to take 10 or 12 years' worth of income and reinvest that in the farm through CapEx. It's also the reason you tend to see very little leverage on farmland, because if the ownership of the farm is amongst a bunch of siblings, sometimes they can't decide where to go to dinner together, let alone let's co-sign on a mortgage.

In those cases, we like it when the farmer knows what improvements we should make. We're underwriting all of that. And based on the productivity of the soil, we're calculating what rent we think is appropriate on that farm. One of the biggest variables is who is your tenant going to be. In that case, when they're sourcing the farm for us, we already know who our tenant will be. It's them.

Those are the things that we're modeling. We're using a typical model like you'd use in private equity or other real estate to generate that. It's just the inputs are different. It's bushels and rent and CapEx. And then you're assuming what's your -- cap rate you're targeting.

And that tells us, well, this is what we can pay for it. And then we're trying to negotiate directly with the seller to buy the farm. We do the same thing if it was a private deal that we heard about through someone else. The first person we're calling is our farm tenant in that area to say, well, this is the farm that's for sale. What do you know about it?

The production history, they would know from maybe driving by it 20 or 30 years in a row. They know if it's had a good crop or not, where improvements need to be made, and we're really underwriting the deal with them. They're providing some information. There's nothing like being local, where you can go meet with the tenant, look at the farm, and that's why we're based here.

And while we have an office in Boston and one in Chicago, our main office is here in South Bend, so that we can get out to these farms relatively quickly. If I look at what are the barriers to entry for other investors coming in here, it's not capital, because lots of people have capital. It's not really availability of land for sale, because you could just go to those 350 auctions we do or some subset of it and buy farms, just go out and do it.

But it's finding those good farmers that are willing to work with an institution, that understand what we would demand as a landowner in terms of reporting that maybe a typical landlord would not.

So the only thing you won't find on our website is a list of, hey, these are all the tenants we work with. That's the secret sauce. That's the barrier to entry. It's developing those relationships. And that's why all of the other portfolio managers here at Ceres, they look just like me. They grew up on family farms. They worked in finance.

And we're the ones that are actually going out meeting with the farm tenants, doing the underwriting, looking at the farms, talking to the CapEx vendors because you have to be able to walk that line of what it means to be a fiduciary, but also being able to go talk to farmers and understand exactly what's happening on the ground.

And you have to be interested in it. For the amount of miles each of us does every year, if you don't like it, it's a tax on your life. The way I think, most of us think about it, it's a real treat to be able to do what we do.

Eric: [00:42:55] **That's really cool. So I get it, tenant-adjacent land. They know the market. They know that. Talk to me about unknown land, unknown owner. Is it like Gold Rush, the TV show, where you're, like, drilling samples to be like, is this good? Or does someone hands you the historical crop thing that every farm has, it's normalized? Or is this all just like on a notebook somewhere?**

Brandon: [00:43:19] Closer to the latter than the former these tenants that use a lot of technology. Any farm that they operate, they have soil samples, which measure, like, soil fertility so that they know, hey, this is the fertilizer we've been using. They have yield maps that come right off of their combine.

Farmers have a ton of data. And that's why everyone is fighting over that data, because aggregating it can be really meaningful. You have so many different operators. So there's a big fight over ag data for that reason. But when I said the first thing we look at is soil type and soil productivity, that data actually comes from the USDA.

It's been surveyed over the course of the last 120 years, 130 years. And you can subscribe very inexpensively to a service that we can map up from our desk every farm using kind of a Google Earth type thing and seeing soil types on a farm that you might think, well, it looks all the same to me.

But when you actually look at these soil types with quality, you could have 30 or 40 different soil types in 160 acres. That's not ideal, but that's possible. From that fertilizer standpoint or when they plant seeds, the population of seeds they're willing to plant, it's all GPS mapped with their planters.

And they can actually use variable rates of application of both fertilizer and seed across a farm. Just as it's moving, they can put in fewer seeds, more seeds, more fertilizer, less fertilizer. It's really amazing as opposed to what they used to do, which was just broadcasting the same, everything over every acre, which created a lot of waste.

What they're trying to do is maximize those acres that are the most productive and minimize the input usage on those that are less productive. And that's where even an institutional investor, if they were selling a farm, they're going to provide more information to you because they probably aggregate it over time amongst their tenant. But you're not going to get everything you want.

There are real diligence items that you have to understand. So I mentioned California and water. That is an area that I think the risk is just so high, not just the water resources being depleted, but the regulation around it is very tough to predict.

And if you think about we're in a commodity business. Every ag product is essentially commoditized at some

. Even wine, there are very few wine labels that are going to garner that price tag for the stuff that we would send to Maine for Camp Kotok.

Most of it is just a commodity product, and it comes down to how do you produce it at the lowest cost. And I think about irrigated farmland here in Indiana. Some of the farms I was looking at yesterday, if we want to drill a well that generates 1,000 gallons a minute, that cost us about $40,000 to $50,000.

And we're in an area where it rains when we're trying to grow crops, so you're not always running that well and running the irrigation. And you also have an aquifer that's constantly recharging.

That same well in California, instead of being 100 feet deep, it's probably half a mile deep and it costs you about $0.5 million at a minimum as opposed to 50,000. And you also have an aquifer that could be being depleted. There's risk that comes with that and regulation, certainly. When we look at what we do, it's all about minimizing that cost, how do you grow the same thing for a lower price.

Eric: [00:46:46] **The offer comes from buying the farm at the right price and then having the secret sauce and the tenants to operate the buys you make. I'm curious, when you think about it from a portfolio management standpoint, how do you think about diversification? Is it that -- do you think about how much the actual end crops you have? Like, do you have too much corn or soybeans? Or is it land-based? Or how do you think about risk diversification?**

Brandon: [00:47:10] The way we look at it, it's not really crop per se, because crops change every year. You rotate crops and you have optionality. If corn was no longer a desirable crop, globally, tomorrow, people say, "We don't want corn," for whatever reason, you can grow soybeans and wheat or hay.

A lot of our farms are irrigated here in the Midwest, which is kind of unique. We grow a lot of specialty crops and vegetables. So things like tomatoes and potatoes, green beans, sweet peas. We grow watermelons, pumpkins and then some of the higher-value crops too or things like seed corn, which is the corn that next year is going to be sold in the bag to a farmer.

So we do like to have a high percentage of specialty crops versus commodity crops. And commodity, I would define as anything that you can go hedge on the Board of Trade and sell to whomever you want, not just an end user. Our diversification -- again, state lines are kind of meaningless unless you're talking about regulation. There might be more in some areas versus others.

It really comes down to tenants. We don't want to have 30% of our acres with one farmer. Now, we have larger tenants, in some instances, and smaller in others. And some of them are just -- they've been with us for a longer time, so we've added more farms over the course of 10 or 12 years than the person that's only been with us for one or two years. And we're constantly trying to grow that tenant base.

So one way to diversify that risk is not just to have more tenants total, but having some overlap. All of the farmers we work with, they're family farmers. So that's good from the standpoint of you're supporting a local family farm. There's also risk with things like death, divorce. Stuff happens.

So it's good to have neighboring farmers or other farmers in an area that you work with so that if -- over time, if someone said, I'm not looking to grow anymore. We're the right size or we want to give up some acres,

maybe as part of a cycle, it's good to have other people you work with already.

We also don't like to use a lot of leverage. So I mentioned there are not a lot of leverage in farmland. On the institutional side, there are some institutions that use none. There are other institutions that are probably more highly levered. And I would think the public REITs, just given a REIT structure and being public, probably have more leverage.

We have about 6% debt across $1.5 billion portfolio. And the only reason we haven't paid that existing debt down is because the rates have been locked for so long and the rates are so low that we'll just wait it out.

Leverage is not a part of our strategy. When we underwrite a purchase, we assume it's all cash. And historically, we use debt more as a way to capitalize on opportunity to buy farms, and we didn't have that queue of equity investors coming in.

Eric: [00:50:01] **When either there's a death, a divorce, how often is there tenant turnover? And how often is Ceres in the position of having to back, well, we own this farm. You're either going to move a family or find a new family? You said there's no vacancy, but I'm curious what turnover looks like and how you bring a new farmer to a new piece of land.**

Brandon: [00:50:21] So if it's our tenant bringing us the farm, that's an easy one. In row crop farmland typically, any time a property sells, it's kind of a free for all in terms of who is going to farm it going forward. So if there were a public auction, and let's start with there's almost no vacancy or there's no vacancy, almost all leases are annual leases, so we don't do that.

We do mostly 3- to 5-year leases, sometimes something shorter to match up a new farm with an existing farm or something with a tenant. But even if there are farmers that have been operating a farm for 20 or 30 years, more times than not, that's 20- or 31-year leases.

And it's because the landowner, they feel like if commodity markets go up, they want to be able to get a higher rent. They don't want to be stuck in a fixed rate lease. Our leases have different types of embedded options in them that if prices go up, then we benefit from that. And if they go down, that comes back down to whatever base we had negotiated.

Most landowners are not like that. This is an industry that 20 or 30 years ago, probably the majority of leases were verbal. They were some type of crop share, either gross or, more likely, a net crop share. So there was a lot of trust that needed to be administered.

And I think there are some people that definitely got burned. And so now if you go to the website of the University of Illinois or Purdue, they have a lease template for farmland owners, and that's probably one or two pages. Ours is a little different. We definitely prefer ours to that.

When you're coming from the structure that's more annual leases and at the end of each year, you're renewing. When a farm sells, usually the buyer is an active farmer. So whoever has been operating that, there's always turnover, because the new buyer is going to farm it themselves.

When we buy a farm, again, it's usually through these instances of public auction or private sales that if we have another farmer that's already farming in that area, we talk to them before we bought it, they helped us underwrite it, they are going to become the new tenant.

So typically, I'm the one that's had to have that tough conversation with an existing farmer to say, we bought it. We already have someone in mind. But in most cases, they understand. Like, any time a farm sells, there's likely to be turnover there.

I'm not going to say that we've never leased it to someone that was already on the farm that we hadn't been working with before. We just bought a farm in Northern Wisconsin. We had a few tenants that were interested. It was about a 7,000-acre farm. We bought about 2,700 acres. We had talked to three or four potential tenants beforehand. We didn't know how much of it we were going to buy, so it was tough to commit acres to anyone.

And we ended up leasing a portion of the farm to an existing tenant that we've worked with. A portion of the farm to one of those people we had talked to beforehand and then a portion of the farm to the existing farmer that was on that ground because we really like them.

And in one instance, this was actually in Western Illinois, we bought a farm that was owned by John Hancock. This was back in 2011 or beginning of 2012 when we closed, and we met the tenant that was farming the ground for them beforehand. We really, really like that farmer. We said, this is a family we want to work with. It was a new area for us.

So pre-auction, we knew they were going to be our tenant. And the interesting thing was when we looked at the existing rent, we said, well, we think you should be paying more than that. And they said, "Oh, we're willing to. They just never asked."

Being an active owner and really understanding what the profitability of that farm is and what is an appropriate margin for the tenant is important. Actively managing these farms in a market that's inefficient is how you generate real alpha and real returns over time.

Eric: [00:54:18] **Well, you started to talk about your family farm in the Marcellus Shale that your family has probably made more money from natural gas than dairy milk. What are some of the ancillary benefits of farmland and the different other areas of monetization beyond just the crop sales?**

Brandon: [00:54:35] That's another part of being a really active manager is how do you generate nonfarm income or nonfarm return, or at least pursue it. Not every property has that optionality. If you would've asked me 10 or 12 years ago, like, what would be the biggest optionality for our portfolio, I probably would have thought maybe oil and gas because of some of the farms we own in Michigan and Ohio and New York State.

I probably would have thought just your typical development, so whether it was industrial or commercial, when you buy farms near a town, there's always some of that. And wind would have been one of those. On the renewable energy side, there's been a big presence of wind in Illinois and Indiana for quite a while.

I never would have guessed solar. And solar development is, right now, one of the biggest nonfarm options we have on our properties. We have about one third of our properties under some type of solar option. Certainly, not even half of those would ever be developed. But with the renewable energy standards that a number of

these Midwestern states have put in are the utilities, that's a big premium over farmland value.

So if you think of it in terms of purchase price, it's probably anywhere from 2 to 4x the farmland value would be what a solar company would pay to buy the land. In terms of lease value, it's probably three to four times. If you think back to -- I said we try to buy most of our farmland, let's use a round number, a 5% income return.

If it goes to solar three or four years down the road, and it's 3 to 4x that, so now it's a 15% to 20% cash flowing asset on that purchase price. So it's a real no-brainer for someone like us. But the other thing that we're seeing a lot of, here in the Midwest, really this Eastern Corn Belt, is the reshoring of a lot of manufacturing.

We sold a property earlier this year to Ford for a new electric vehicle battery plant in Marshall, Michigan. It wasn't our property, but just west of South Bend here. GM announced a very large electric vehicle battery plant in New Carlisle, Indiana, that some landowners sold a lot of ground for. And I think that type of development has continued.

Also, easements for things like pipelines and power lines as the power grid and infrastructure in the country continues to improve. The U.S. is blessed with something called private property rights. They can't just jam it through your land, you get paid for that. So there's certainly a lot of value that comes from that.

And then some of the other things that we don't participate in. We don't actively collect things like conservation payments or things like that, but doing wetlands mitigation is something we've really been looking into, because there's a big demand for that. And if we had lower quality farms that we thought could be taken out of production and used for wetlands mitigation, we would do that.

Our goal when we buy a property and our underwriting is completely around making CapEx improvements on the farm to make it the most productive ag property. And we don't put any value on any of that nonfarm revenue or optionality, but it's there. And now we've been doing it since 2007 and a lot of optionality that comes over time.

It's the benefit of our structure being an evergreen structure that we didn't just do it as a private equity vehicle that you raised all the money, invested it over three or four years and then 10 years down the road, you sell it all. We would have given away a lot of this optionality without knowing it. So this type of vehicle is great for that long-term optionality.

It also really benefits from doing bolt-on acquisitions or it allows for that. I never would have anticipated how much you can grow your portfolio holdings by just, over time, bolting on neighboring acres, because, as I said, only 1% turns over every year.

There are farms we bought 15 years ago that now we're adding adjoining acres because the family next door, now they decided to sell. It's almost a generation later. And over time, you're going to continue to see that type of consolidation because as families stop farming or just decide it's time to sell the property. The first person they call is still either their tenant or the neighboring landowners.

Eric: [00:58:51] **You mentioned the fund structure being evergreen. If you're buying farmland in this vehicle, are you just getting the coupon payments from the lease payments on an annual basis? Or is**

there some sort of, oh, Ford bought this so we have a huge event and now everyone has distribution? Or is that going to buy more farmland?

Brandon: [00:59:10] We do customize distribution. So while we have a REIT feeder, the fund itself is not a REIT, so we're not forced to pay out annual income. Every investor has the option of selecting pay me income every year. We have annual liquidity. It tends to be in the fall, so our notice date is at the end of September.

And so every investor can say whether it's an individual, a pension plan, an endowment, they can say pay me my income this year. They could say, I want a partial or full principal redemption. And usually, that's paid within three months. We really leave it up to the investor.

The majority of investors are reinvesting. If we didn't have any opportunity to buy, we would return capital as it's through sales, but we're still buying farms. This year, year-to-date, we've purchased just over $37 million in new farms. Most institutional investors, if you're in this space, $37 million would probably be one deal, maybe two.

We actually believe in doing the institutional roll-up ourselves. There was one farm. I mentioned that one in Wisconsin. That was a $13 million deal. That $37 million was 11 different transactions. A number of them were just bolt-ons to existing farms. They range in value from $0.5 million up to that $13 million.

There's a lot of stuff we'll do that others won't. And it's our cost, our time as the fund manager, but we think that's how you generate alpha in this space. It's being really active, being local. I think when people invest in farmland, the best thing they can do is find someone that their focus is pretty narrow, and it's really deep.

And the strategy of let's diversify across every region of the U.S. or even all these regions of the world, including Australia, South America, sub-Saharan Africa. It wasn't that long ago, people were saying the Black Sea region is a great place to generate the same yields at a lower cost.

But like anything else, you don't care about how turbulent the sea is as long as you make it to where you're going, and you want to make sure your principal is protected. We like U.S. farmland for that region, and we like doing the institutional roll-up, because we think that's where the real returns are generated. Everything else, in our opinion, is beta at best.

It's beta minus when you introduce, like, real risk of losing your principle. That's what people, as they think about farmland, there's a lot of different ways to invest, and there's no cheap beta today. Eventually, there will be. But you need a bigger bucket of institutional ownership to be able to deliver that.

And if someone figures it out, it'll probably be our friend, Jeremy Schwartz at WisdomTree. For now, if I were looking at farmland as an investor, you want to find those managers that really know their regions and their areas really well because there's lots of ways to lose money. The ways to make money, it's not easy. There's no black box here. It's by a great price, rent to good people, collect your rent, be an active manager, the execution aspect of it is difficult.

Eric: [01:02:14] **You laid out some great cases why this is such an area ripe for investing, which -- that sounds easy. Obviously, executing it is very hard. What was your favorite deal that you've ever done?**

Brandon: [01:02:24] One of the more interesting ones is one that's really local here. We bought a farm in Indiana. This was probably five years ago. We had irrigation all around it. We're growing specialty crops, like vegetables all around it. And this farm wasn't irrigated. The previous landowner wasn't going to make that investment.

For us, it was low-hanging fruit, to use a jargon term. It was a no-brainer that we could buy this farm that was generating, today, about $150 in rent. We could spend about $1,200 an acre. So that $150 in rent was per acre. We could spend $1,200 an acre, and the rent would jump to about $450 an acre.

So the buyback on that CapEx investment, the payback was three to four years, an absolute no-brainer for us, and we bought it, we added the irrigation. And for our tenant in that area, it was a huge strategic win to add those types of acres.

And I say they're not making any more farmland. It's going down every year. But there still are those farms that you can increase productivity tremendously. And it comes from adding a farmer that's using better technology, it's adding technology or CapEx to the farm.

We bought it from an estate that was happy to sell. They were looking for liquidity. We paid them a great price for that farm for what it was, but we were buying it for what it could be. And when we're making those CapEx investments, they're made within a year. This isn't like let's buy it and see, can we find water? Can we get approvals for doing these things?

This is stuff that the day we signed the contract, we're planning it out. And the day we close, we're starting that project. Those quick paybacks are really, for us, some of the best investments out there.

Effect of Interest Rates

Eric: [01:04:17] **I have to imagine, coming out of the crisis, being in a zero-interest rate world, in the fixed income myself, we were offering the eye-popping 1.5% returns. And so a lot of crazy things happened. I'm curious how your asset class was impacted by low-interest rates. Did you see, like, more aggressive people showing up and be like, "I'm going to buy a land?" What were the LPs responding? How did a low-interest rate world affect this market?**

Brandon: [01:04:45] In any yield-based product or yield-based investment, rates matter. I don't know how many of our investors were viewing an investment in farmland as a fixed income substitute. Some of them certainly were, whether it was core fixed income or if you compare it to TIPS because there's more of an inflation component. And compared to TIPS, there's still a real premium in what we generate, but compared to core treasuries, there's not as much anymore.

So I think there was definitely some investor interest from that. Part of that was tempered by just the strength of other markets that some people didn't have time for farmland. They just weren't interested when equities were printing gains every year. Fixed income was printing gains.

I think there's more interest level today, because people are thinking more about the noncorrelation or diversification within a portfolio that an asset like this could provide. The interest rate sensitivity for the land itself is probably not as much as you would think. There's not a lot of debt and the percentage of institutional ownership is really low. It's not like a timber portfolio that if all your buyers are very yield-sensitive, the minute

yields change, everything reprices.

In farmland that doesn't happen because the majority of buyers are not using debt. The majority of their land, while it may be collateralized in an operating line or something, there's not a lot of leverage on farmer land. Interest rate sensitivity has been lower. As you think about values going forward, higher rates will certainly mean a plateauing of values.

And if rates were to continue to increase, you'd see some land value decline, in my opinion. But land value is typically dictated by farm income and then what rate is being used as that risk-free rate. And no one was using 1% or negative rates when they were valuing it then to be at 4% or 5% now, it doesn't move the dial that much.

If higher rates keep out, cheap money and institutional investors that want to blow in and blow out, that's good for us. The longer that this stays inefficient, the better. So higher rates, from my standpoint, are going to create an opportunity because we want to see cycles. We're trying to grow our portfolio cycles, whether it comes from rates or commodity prices or maybe both. That'll create some opportunity for us on the buy side.

Where we are in the Market Cycle

Eric: [01:07:08] **This has been awesome, Brandon. This is the question we're going to end with. The famous chart, you'll see the different parts of the cycle, euphoria, fear excitement. This is your crystal ball moment. Where do you think we are in the cycle?**

Brandon: [01:07:21] We're definitely coming off of euphoria. I've been through some of these cycles. '12 and '13 was definitely euphoria. '15 through 2019 in farmland, you were in depression because you had a trade war with China, you had a really strong dollar and you had multiple years of low commodity prices. That's kind of the perfect storm of things that could happen that you'd say, "What could go wrong with this investment?"

The one thing that was still good or a tailwind were lower rates. So now we have higher commodity prices. We don't have a trade war right now. So the export markets aren't being affected. 2021 and 2022 were some of the most profitable years for agriculture in the last -- maybe ever, but certainly last decade. And 2023, while still being profitable, will be less profitable. You're in this higher rate environment.

So I would say -- if I had to put a pin on it, it'd be at that anxiety level. And I like that because we want to deploy capital. We're very comfortable with the farms we have in the portfolio, our entry points where they're marked today. I mentioned we have a queue of about $250 million, and we've invested just under $40 million this year.

If I could deploy $200 million in the next few months, that'd be great. That's not going to happen. But over the course of the next 18 months, if we could do that, that would be fantastic, too. So we're at that anxiety level. There's certainly no fear, but people are wondering what does this rate environment mean.

And commodity prices are going to move one way or the other, depending on what the crop looks like this year, how demand looks and what global trade is looking like, too. That's where I want to be on the investor side. I'm not worried about capitulation or depression. I think that's when we want to buy for sure.

And during that time period of 2015 to 2019, we've deployed almost $400 million in new capital, and that's really the foundation of our track record over these last two or three years. It's buying it in those times. I mentioned we sold a few farms for development. So we want to sell when prices are really high, cherry-pick or prune, and then we want to redeploy when we find prices that are attractive to us. So that's why, again, I said our structure helps. And at this part of the cycle, I think it's going to be a real benefit.

Eric: [01:09:44] **I think what you guys have is really interesting, and I always love talking to you, Brandon. Thanks for the time today.**

Brandon: [01:09:49] Yes. Thanks, Eric.